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C O N F I D E N T I A L ROME 005653

SIPDIS

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SUBJECT: ALITALIA IN TURMOIL: INITIAL PRIVATIZATION MOVES  
PROMPT WALKOUT, MASSIVE FLIGHT CANCELLATIONS

CLASSIFIED BY: ECONOMIC COUNSELOR KATHLEEN REDDY FOR REASONS 1.5 (B) AND (D)

1. (C) SUMMARY: FROM DECEMBER 17 TO EARLY DECEMBER 18, ALITALIA WAS FORCED TO CANCEL 80 FLIGHTS OUT OF ROME'S FIUMICINO AIRPORT AS HUNDREDS OF EMPLOYEES SUDDENLY WALKED OFF THE JOB TO PROTEST LOOMING PRIVATIZATION MEASURES AND THE POSSIBILITY OF LAYOFFS. ACCESS ROADS TO THE AIRPORT WERE BLOCKED AND NO IMMEDIATE END TO THE CHAOS IS SEEN, ACCORDING TO ITALIAN DAILY LA REPUBBLICA. SINCE THE ANNOUNCEMENT OF ALITALIA'S PARTICIPATION IN THE KLM-AIR FRANCE MERGER AT THE END OF SEPTEMBER, ALITALIA HAS BEGUN A SCRAMBLE TO PRIVATIZE AND REFORM ITSELF TO ENTER INTO THE MERGER ON MORE SOLID FOOTING. LABOR AND CONTRACT TENSIONS HAD LONG SIMMERED BENEATH THE SURFACE BEFORE THE DECEMBER 17 ERUPTION, SO THIS PROTEST DOES NOT COME AS A SURPRISE. ALITALIA MAY HAVE PINNED ITS HOPES FOR SURVIVAL ON THE MERGER AND PRIVATIZATION, BUT THIS SUDDEN CRISIS BRINGS TO THE FOREGROUND THE FUNDAMENTAL QUESTION OF WHETHER THE COMPANY CAN TAKE THE PAINFUL STEPS NECESSARY TO EVEN PARTICIPATE AT ALL. POST WILL FOLLOW THIS PROCESS AS IT UNFOLDS, AND WILL TRANSMIT A MORE COMPREHENSIVE CABLE PROFILING ALITALIA AT THIS CROSSROADS IN JANUARY. END SUMMARY.

#### INTERNAL MANAGEMENT DIVISIONS

2. (C) THE DECEMBER 17 EVENTS CAME IN REACTION TO A RECENT RECONSTRUCTION PLAN RELEASED BY ALITALIA MANAGEMENT. THE PLAN IS SEEN BY FORMER MANAGING DIRECTOR FRANCESCO MENGIOZZI AS ESSENTIAL TO ALLOW THE COMPANY TO PROCEED WITH RAPID PRIVATIZATION AND, THEREFORE, ASSUME A POSITION OF MAXIMUM STRENGTH IN THE KLM-AIR FRANCE MERGER. THE PLAN INVOLVES CUTBACKS IN EMPLOYEE SALARIES AND BENEFITS AND INCLUDES THE POTENTIAL FOR LAYOFFS. MENGIOZZI'S APPROACH DIFFERS SLIGHTLY FROM THAT OF NEW CHAIRMAN GIUSEPPE BONOMI, A POLITICAL APPOINTEE TASKED WITH MOVING THE PRIVATIZATION PROCESS FORWARD. PRESS REPORTS INDICATE THAT BONOMI - AND HIS SUPERIORS AT THE MINISTRY OF TRANSPORT - BELIEVE THAT NO EFFECTIVE PRIVATIZATION PLAN CAN MOVE FORWARD WITHOUT THE SUPPORT OF ALITALIA'S POWERFUL LABOR UNIONS.

#### A FLIGHT ATTENDANT'S VIEW

3. (C) CHIEF AMONG THE DECEMBER 17 LABOR COMPLAINTS WERE MEASURES TO ELIMINATE A COST OF LIVING ADJUSTMENT FOR 2004, AND REDUCE BENEFITS BY RELYING MORE ON SHORT-TERM SERVICE CONTRACTS THAT USUALLY LAST FOR THREE OR FOUR MONTHS AND CAN BE CANCELLED EXPEDITIOUSLY. FRANCESCO AVELARDI, AN ALITALIA FLIGHT ATTENDANT, HAS BEEN WORKING UNDER RENEWABLE SHORT-TERM SERVICE CONTRACTS FOR THREE AND A HALF YEARS. "RIGHT NOW, I HAVE NO BENEFITS AND NO JOB SECURITY," AVELARDI TOLD ECONOFF. AVELARDI WENT ON TO SAY THAT HE HOPES THAT AFTER FIVE YEARS OF TOTAL SERVICE, ALITALIA WILL PUT HIM ON A PERMANENT CONTRACT, BUT HE IS AWARE THAT THEY COULD DECIDE NOT TO RENEW HIS CONTRACT WHEN IT EXPIRES AGAIN IN FEBRUARY. AVELARDI WAS RECENTLY TOLD THAT A HOLIDAY MORATORIUM HAD BEEN PLACED ON ALL WORK SCHEDULE QUERIES AND CHANGES UNTIL FURTHER NOTICE; AND AS A RESULT, HE IS UNABLE TO SPEND EITHER CHRISTMAS OR NEW YEAR'S WITH HIS FAMILY.

#### COMMENT: AT A CROSSROADS

4. (C) THE VISIBLE AND DRAMATIC ERUPTION OF INTERNAL TENSIONS DECEMBER 17 WAS INEVITABLE. A DEGREE OF URGENCY AND DESPERATION HAS SEEPED INTO THE CURRENT SITUATION, SINCE BOTH MANAGEMENT AND LABOR SEE INTERNAL REFORM AS A QUESTION OF SURVIVAL - MANAGEMENT, TO PRIVATIZE THE TROUBLED AIRLINE AND POSITION IT FOR ENTRY INTO THE KLM-AIR FRANCE MERGER; AND LABOR, TO PROTECT THOUSANDS OF ALITALIA EMPLOYEES. WE EXPECT NO IMMEDIATE RESOLUTION TO THESE TENSIONS. HOWEVER, ONE THING IS CERTAIN - THE WAY THESE TENSIONS PLAY OUT IN 2004 WILL DETERMINE THE FATE OF A POTENT NATIONAL SYMBOL AND THE DOZENS OF SUPPORT SERVICES THAT CURRENTLY SUSTAIN IT. POST WILL FOLLOW WITH A MORE COMPREHENSIVE REPORT ON ALITALIA IN JANUARY. END COMMENT.

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